SCAPE & SOCIAL VALUE PORTAL Social Value Benchmarking Report

MAY 2021







Executive summary

This benchmarking study evaluated the reported outcomes from a sample of over 1,400 projects from the construction sector completed over the past seven years and ranging in size from around £10,000 to over £1.4bn. We identified that the aggregate Social and Local Economic Value (SLEV) reported as a percentage of the reported project construction cost was over 24%.

Most of the value generated was derived from "local" value (the value attributed to local jobs and locally invested supply chain spend) rather than from the additive to society at large

The figures are summarised in Table 1.

The study also found that smaller projects generated high levels of social and local economic value as well as larger ones, but that the range of measures used in smaller projects tended to be lower, so there was more focus on local economic value. Dividing the projects into bands of contract size, we identified an increasing variance in the number of measures used as the project value increased. At the larger end of the scale, there is a significant difference between the bestperforming contracts in terms of the number of measures used and the worst.

Of the social value measures used, those relating directly to jobs and training tended to predominate, both in terms of value and frequency of use.

The reported value of local spend distributed across the UK was significantly affected by the GVA multiplier effect in London and the South East. If this multiplier is amended to target investment need, it shows a wide variance in the share of overall local spend in each region, which does not, for instance, correlate with relative population sizes. This exercise also showed a predominance of London-based spend in the sample. Similarly, there was a wide variance between regions in the proportion of spend allocated to authorities with more deprived areas.

It is important to note that the data used in this report has not been independently verified, nor been reviewed. The reported data has been taken on face value. It should also be emphasised that, although a large sample size has been reviewed, projects are unevenly distributed across the UK and this should be taken into account when considering regional variations that arise from the analysis.

The principal conclusions from this work are that further consideration should be given to:

- » Setting independent targets for % of social value created, separately from the measures focused on local spend
- » Encouraging the take-up of social value measures beyond those relating to jobs and skills
- » Looking at alternative and complementary ways of measuring local economic value
- » Seeking to build the evidence base for supply chain spend
- » Starting to correlate contract spend data with external geospatial datasets, such as Indices of Multiple Deprivation

About the research team

Social Value Portal (SVP) is an online platform for measuring and reporting social value which uses the National TOMs, developed by SVP as a cross-industry and cross-sector social value measurement standard. The Portal is supported by a team of social value experts and this research has been led by Nathan Goode, SVP's Head of Data and Analytics. SVP have been working in partnership on this project with SCAPE, the UK's leading procurement authority that offers a suite of direct award frameworks, property services and innovative design solutions.



Contents

7 Background to this report

7 About SCAPE and Social Value Portal

8 Key findings

- 8 Overall Social and Local Economic Value delivered
- 10 Variations by Contract Size
- 10 The distribution of Local Economic Value
- 16 Social Value (excluding local economic value)

19 Our approach

19 About SVP and the TOMs

21 SCAPE case studies

25 Local value: methodological approach

- 25 What is local economic value?
- 25 Why should we analyse local spend?
- 26 Analysing local supply chain spend
- 26 Levelling up
- 29 Results

32 Conclusions



Background to this report

The measurement of social value, both in construction and other areas of public procurement, has made huge strides forward since the enactment of the Social Value Act in 2013. The launch of the National TOMs measurement framework in November 2017 was a milestone in standardising the measurement of social value in public procurement, as well as other areas of economic activity, both in the public and private sectors. Since then, the volume of contracts and projects that report social value has increased enormously.

The first stage of social value reporting was about building a consensus on the rationale, the processes and the mechanics of social value reporting and about agreeing the basics of what should be reported. The next stage is about improving quality, consistency and relevance, asking what the data really tells us, what "good" looks like and how we can learn from delivery.

While the launch of the National TOMs was a key staging post in the standardisation of social value reporting, there are plenty of examples of good practice which go back well before the launch of the National TOMs. SCAPE, for instance, used a KPI framework including indicators for local economic value, training and community benefits for 10 years before adopting the TOMs in 2018, providing an extensive historic dataset of reported social value across a wide range of projects.

While the main purpose of this report is to open a discussion about how social value could or should be benchmarked, both in the construction sector and more widely, social value is about people, not data. So, we have also included some of the SCAPE projects as case studies, to illustrate what social value looks like in practice. The case studies have been selected to illustrate that projects of all sizes, including smaller and midsized works, are able to create social value.

Summary SLEV Analysis

Aggregated contract value	£23,232m
Aggregated project numbers	1,480
Aggregated local economic value	£5,592m
Local value	24.07%
Aggregated social value	£139m
Social value	0.60%
Overall social and local economic value	24.67%

About SCAPE and Social Value Portal

SCAPE is the UK's leading public sector procurement authority, dedicated to creating spaces, places and experiences that leave a sustainable legacy within the community. Since 2006, SCAPE has accelerated over 12,000 projects across the UK with their direct award frameworks, property services and innovative architectural designs.

Social Value Portal is an online solution that allows organisations to measure and manage the contribution that their organisation and supply chain makes to society, according to the principles laid out within the Public Services (Social Value) Act 2012. Our solution allows organisations to report both non-financial AND financial data and rewards organisations for doing more good in the community.

We can measure environmental, social and economic activities and will help identify and measure the additional Social Value delivered through your project in terms that are meaningful to your customers.

Key findings

There is increasing appetite for setting standards of social value so that contractors and procuring authorities alike can consider what "good looks like". SCAPE and Social Value Portal (SVP) have collaborated to produce an analysis of reported social value data from over 1,400 projects in the construction sector as a first step towards establishing a benchmarking approach for social value delivery.

As far as we are aware, this is the first exercise of its kind. The publication of this report is intended to stimulate discussion and debate about approaches to benchmarking social value.

We should stress that Social Value Portal has not verified the data during this research. SCAPE has a proud track record of contractually specifying and reporting on the delivery of social value and conducts audits on performance reporting approaches by the contractors it works in partnership with. Nonetheless, this report is based on historical data, dating back up to 7 years and it would not be practical to try to reconstruct the evidence base for these projects or to confirm the validity of every project in this way. Reported data has therefore been on face value to enable a large sample size to be established.

We believe that this exercise has provided some broad indicators which are useful in assessing the general stage of development that social value has reached in the construction sector. Benchmarking clearly has a valuable role to play in setting expectations and targets for social value delivery and providing a tool for identifying both areas of good practice and potential improvement. The intention is to build on the lessons learned from this exercise for future benchmarking reports.

Social value is ultimately determined by the effect that initiatives and actions have on the lives of individuals and communities. A measurement framework such as the National TOMs framework establishes a quantified hypothesis for these effects that can then be compared with other mechanisms for assessing social value. The data fed into this benchmarking exercise provides a first level of insight into what lies behind the overall reported numbers. It does not pretend to analyse the direct impact that this reported social value has had, but we do need the first level of analysis to improve our understanding of what social value really means and to feed into investment decisions and resource allocation.

A key measure that has become increasingly prevalent in the construction sector is quantified social value expressed as a percentage of the construction cost or contract value. While this is clearly a crude measure, it is a measure that should be available for every project, thereby allowing for general comparison and allowing us to anchor relative social value by adjusting for contract size, so we have used this as a reference point in this report.

Overall Social and Local Economic Value delivered

The key summary figures are set out in Table 1 below. These show that the overall estimated contract value overall was around £23.2bn, covering over 1,400 projects, ranging from around £10,000 in value to over £1.4bn.

Our analysis is split into "local economic value" (local jobs and supply chain spend) and "social value" (everything else).

Local economic value accounts for the bulk of the reported value. This is due in part to the fact that a significant proportion of the project sample was not subject to the full TOMs measurement framework, but this is less of a factor than might be assumed and the overall picture, even with more recent projects, is one of a predominant focus on local, rather than social value elements.

If combined, social and local economic value (SLEV) would be around 24% of contract value, but this percentage varies by contract size, as we explain in the report. The summary figures are shown in the table below.

While this huge difference in scale between local and social value is partly due to the inclusion

Figure 1: Local and Social Value – SVP Projects £m





Table 1: Summary of social and local valuefrom project sample

Summary SLEV Analysis	
Aggregated contract value	£23,232m
Aggregated project numbers	1,480
Aggregated local economic value	£5,592m
Local value	24.07%
Aggregated social value	£139m
Social value	0.60%
Overall social and local economic value	24.67%

of many projects that were undertaken prior to the implementation of the TOMs framework, this is not the main reason. If we consider just the projects that include the TOMs measures, this also shows that local economic value predominates, with local economic value accounting for £2.8bn, while social value accounted for £123m.

Local economic value is a key driver for procuring authorities, particularly local councils, and with good reason, because without local economic value, there is no economic foundation on which other elements of value can be built. This can be illustrated by thinking about local economic value as the base of the overall value pyramid, such as in the diagram below.

The role of local economic value in social value analysis can be a matter for debate. Our view is that local jobs and local supply chain spend are an essential part of delivering an effective social value strategy, but that they must be reported as clearly distinct from the social value where the benefit is not defined geographically.

This is discussed in more detail later in the report.

Variations by contract size

The distribution of social value by contract size shows some interesting results. It might be assumed that larger contracts are inherently able to deliver more social and local economic value, but this is not evident from the data, which we think is a positive message about the ability of smaller and medium-sized businesses to deliver social value. In fact, the trend is for SLEV as a percentage of contract value to decline as contract sizes increase, as shown in Fig 3 below:

On the other hand, for projects using the TOMs framework, the number of individual measures steadily increases up the contract bands, indicating that the primary focus in smaller contract sizes is on local economic measures, rather than strictly social measures.

This in turn suggests that one area of focus for improving best practice is on where smaller

contracts can deliver a broader range of social and not just local economic value measures. This is illustrated in <u>Chart 4</u>.

As can be seen, the number of measures used in most categories (no more than 25, and 15 or below for most bands) is not particularly high. In all but one of the bands, the lowest number of measures used was 1.

One notable observation from our colleagues at SCAPE is the importance of time on the ability to create social value. As the value of a project increases, the duration of both pre-construction and construction time in a contract are longer, creating a greater opportunity for the contractor to act and create social value.

The distribution of Local Economic Value

Social value is concerned with impacts on people, so it is important to move beyond the quantification of delivered activities and interventions to try to understand better how they are distributed geographically and whether they are reaching the places and communities where they can make the most difference.

We therefore looked specifically at how local spend is spread across the country. The methodology is summarised below. Our local spend analysis has three components:

- » We localised the value of construction expenditure by using an adjusted GVA multiplier as applied in the National TOMs. This multiplier is based on UK-wide industry multiplier, using Standard Industry Codes (SIC), and then adjusted regionally according to per capita income. For any given industry (and construction is no exception) the multiplier will therefore be higher in areas with relatively higher per capita income, as the localised multiplier simply reflects the historical differences in economic output between areas of the country.
- » However, if we are interested in the potential for construction activity to help address economic inequalities, we might want to do quite the



Figure 3: Average social and local economic value by category of contract value

Figure 4: Maximum and minimum number of TOMs measures used by category of contract value





opposite – i.e., place greater weight on local spend in areas of greater need. So, we inverted the standard localised multiplier described in 1. to place greater weight on projects in areas with localised GVA multipliers below the UK average.

» Then we looked for a correlation between local spend and areas of multiple deprivation. This is very much an experimental approach, but we would like to explore whether there is interest in applying it more widely.

The results are summarised in the following charts:

- » Figure 5 Distribution of local supply chain spend across the UK by £ value.
- » Figure 6 Distribution of local supply chain spend across the UK by "localised GVA".
- » Figure 7 Distribution of local supply chain spend across the UK by adjusted or "inverse" GVA
- » <u>Figure 9</u> Distribution of local supply chain spend across the UK according to areas of high deprivation within each region

Each of these charts is explained in more detail later in the report. On a per capita basis, it should be noted that London, Scotland and the South East have a relatively high proportion of total local supply chain spend (10%, 18% and 25% respectively) which is broadly comparable with their relatively high share of total contract values in the overall sample. The spend in the North East of England is slightly higher than the population share for this region. The spend shares for London, the North West and South East are broadly proportionate to population sizes, while the other regions are all underweight relative to their population sizes.

Based on a standard GVA multiplier approach, <u>Figure 6</u> shows that projects in London account for nearly a third of the total GVA for local supply chain spend (c.31%) in the sample. This is largely due to high localised GVA multipliers applied to London expenditure.

As we explain in more detail in <u>Local value</u>: methodological approach, the drawback to applying a GVA multiplier to local supply chain spend as a measure of value is that the result is not a measure of investment need. In fact, the reverse is arguably true, that the areas of the country with the lowest recorded GVA output are most in need of the economic benefits generated by construction activity. Meanwhile, spending more money on construction in areas that already have a high per capita output might in fact be creating negative effects by putting greater pressure on infrastructure, public services and the environment.

Figure 7 shows what happens when a form of inverse multiplier which favours underperforming areas is applied to supply chain spend. Perhaps not surprisingly, the "value" in London goes significantly negative, while most other areas see a significant upward increase in their share of the total value created. It is interesting to note that the South East now comes top, followed by Scotland.

Figure 8 shows where local spend (as defined by the location of the project) is taking place in or near areas of higher deprivation. The methodology is explained in more detail in Local value: methodological approach. In summary, there are some areas where a reasonably high proportion of local spend appears to be directed towards areas of higher deprivation (notably the North West, West Midlands and Northern Ireland), while there are others where little or none of the local spend is directed towards areas of higher deprivation.

This paints a crude picture, as there are some regions — the South West, the North East and South East — where sub-local authority areas of deprivation have not fed through in the averaging of rankings. On the other hand, London has areas of higher deprivation, but there is no recorded spend in respect of these areas, so this illustrates the limitations on the data feeding into this analysis. However, the broad picture appears to suggest that the alignment between construction spend and areas of high deprivation is variable and in most cases is probably not planned.



Figure 5: Distribution of local supply chain spend across the UK by £ value



Key findings



Figure 6: Distribution of local supply chain spend across the UK by "localised GVA"

Figure 7: Distribution of local supply chain spend across the UK by adjusted or "inverse" GVA





The overall conclusion from the analysis of the geographical distribution of local spend is that we need to re-examine the way we measure local economic value and gather more detail. The GVA multiplier approach in isolation tends to reinforce pre-existing value presumptions about high performing areas in the UK (notably London and the South East).

Social Value (excluding local economic value)

As indicated above, the project sample consists of a combination of projects whose data is held on the Social Value Portal and SCAPE projects which predate the implementation of the TOMs on the SCAPE frameworks. In both sources, local economic value was the dominant element, although in numerical terms, the reported values for social value were significant.

The SVP projects, where the National TOMs framework or a comparable TOMs framework was applied, record a total of £112.6m1 of social value, on a contract value of £18.4bn, giving a % SVA of 0.61%. As might be expected, there is a broader distribution of value across measures than for the older SCAPE sample, but broadly the same measures still predominate, as the tables below illustrate. However, this picture changes slightly when the distribution is examined in terms of £ value, as the societal impact of measures targeting disadvantaged groups brings these measures more to the fore. Bringing the long-term unemployed back into the work-place accounts for nearly 20% of reported social value (around £22m), while providing jobs for people who are Not in Employment, Education or Training (NEET) accounts for a further £5.2m.

While localising jobs and supply chain spend is clearly an important element in helping to build sustainable communities, and while local economic value and social value are not directly comparable, the available data suggests that there is probably too great a focus on local economic value just now, and that initiatives to increase the contribution to non-local social value measures are needed.

This would align with a focus on increasing the number of TOMs measures used; as the first measures to be used will almost always be the local measures. Increasing the range of measures used is likely to have a beneficial effect on the amount of social value reported, as contractors look for ways of satisfying these social measures.

What the basic data presented in this report does not show is the time, effort and resources that go into delivering social value through the construction industry and the return on "investment" achieved. The case studies help to illustrate some of the benefits that can be delivered, but it would also help to develop a better understanding of how construction companies make resources available for social value.

¹ This compares with £123m in Fig 1. above – the difference representing measures that are not included in the National TOMs framework

Table 2: Top 20 Social Value measures – frequency of usage

Social Measures by SVA	#	% Total SVA
Jobs for long-term unemployed	1	19.62%
Apprenticeships	2	14.13%
Training Opportunities	3	13.19%
Reduction of waste to landfill	4	10.34%
Supporting people into work	5	7.43%
Jobs for people Not in Employment, Education or Training	6	6.34%
Employers' fairs held	7	4.77%
Internal training opportunities for employees	8	4.35%
Staff wellbeing	9	3.06%
Crime reduction	10	1.91%
Work Placements	11	1.72%
Donations to local community projects	12	1.68%
CO2e reductions not from transport	13	1.65%
Donations to VCSEs	14	0.81%
Volunteering for local community projects	15	0.66%

Table 3: Distribution of value between social value measures

Top 20 Social Measures by Usage	#	% Tot Ref
Apprenticeships	1	11.94%
Training Opportunities	2	11.24%
Work Placements	3	7.92%
Car miles saved	4	7.43%
Staff wellbeing	5	7.18%
Donations to local community projects	6	6.09%
Jobs for people Not in Employment, Education or Training	7	6.06%
Volunteering for local community projects	8	5.60%
Supporting people into work	10	5.53%
School and college visits	9	5.22%
Crime reduction	11	3.01%
Jobs for long-term unemployed	12	2.49%
Expert Advice for VCSEs & SMEs	13	2.07%
Third sector supply chain spend	14	1.40%
Site visits for school children or local residents	15	1.23%

Key findings



Our approach

For this benchmarking exercise, SCAPE and Social Value Portal created a combined project sample from the following sources:

- » Social Value Portal projects which had reported social value delivered under the TOMs
- » SCAPE projects which had reported social value through their performance measures and employment and skills plans that pre-dated their adoption of the TOMs (which was then "translated" into an equivalent TOMs value.)

The result was a sample set of over 1,400 construction projects, ranging in size from under £100,000 to over £500m, covering the whole of the UK. This exercise did not include a review of the evidence provided to support the social value reported, so this work rests on the assumption that the figures reported can be relied on. Some work was required to align the outputs from both samples. The following sections set out the work undertaken and assess the results.

The project sample principally comprises projects procured on behalf of public sector bodies.

We analysed the projects by geographical region, contract size and correlation to areas of multiple deprivation, to see how value was distributed. For the SVP projects only, we also examined what measures in the social value framework were most used.

About SVP and the TOMs

<u>Social Value Portal</u> is an online solution that allows organisations to measure and manage the contribution that their organisation and supply chain makes to society, according to the principles laid out within the Public Services (Social Value) Act 2012. Our solution allows organisations to report both non-financial and financial data and rewards organisations for doing more good in the community.

The <u>National Social Value Taskforce</u> developed the National Social Value Measurement Framework (the TOMs framework) that was launched in 2017 following extensive consultation between over 40 private sector companies, local authorities and other public sector organisations including SCAPE and the Office of Civil Society and Crown Commercial Services.

The TOMs Framework, which was used as the basis for the analysis, is built around five key Themes supported by 18 Outcomes and 48 specific Measures in the current version (2020). It allows an organisation to identify and measure the benefits of a specific development or project that and use this to respond to the needs of the area and make a difference to local economic, social and environmental wellbeing.

The five TOMs Themes



Jobs: Promote Local Skills and Employment



Growth: Supporting Growth of Responsible Regional Business



Social: Healthier, Safer and more Resilient Communities



Environment: Protecting and Improving Our Environment



Social Innovation: Promoting Social Innovation

SCAPE case studies



Contractor:	Fortem	Sector:	Education
Project:	Michael Drayton Primary School, Nuneaton	Contract value:	£1.6m
his project was a £1.6m school extension in Nuneaton, where Fortem were onsite for approximately 9 months. During their time onsite, Fortem worked collaboratively with the school to deliver several initiatives designed to leave a legacy for the pupils, teachers and the community based on what would add the most value for them. This included:			
 Creating an outdoor learning environment using recycled materials to create classroom equipment like tables, whiteboards and seating areas for up to 30 children 			
» Installing a new, waterproof roof on a bird hide, and replacing the MDF boards on the school's insect house, helping to protect and conserve the local ecosystem			
 Delivering a STEM workshop to inspire and engage year 6 pupils – further supporting with addressing the industry's skills gap 			
» Supporting students at Bosworth Academy, a local secondary school, with mock interviews, helping improve their confidence and future employability.			
Overall, the result of Fortem's efforts on the project generated a Social Value Add (SVA) of 49.1%, with 15.8% coming from social value measures alone.			
Social and lo	ocal economic value added:	£0.785m	
Social and lo	ocal economic value added:	49.1%	
Social value	added:	15.8%	
This demonstrates that it is possible to achieve high levels of social value on small projects with a limited amount of time onsite.			



Contractor:	Lindum	Sector:	Education
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Project: World War I Roll of Honour Centenary Contract value: £0.33m War Memorial, Nottingham

A n important heritage project that involved the construction and sensitive installation of a new World War 1 Roll of Honour Centenary War Memorial in Nottingham commemorating, for the first time, all of those from Nottinghamshire who lost their lives between 1914 and 1919. 13,501 names were laser cut onto 270 slates with each slate taking around two hours to be engraved. Despite not being a traditional construction project, Lindum were still able to deliver several social value initiatives which benefitted the local area, including:

Employing an apprentice

- » Saving 1,160 car miles through a car sharing scheme
- » Donating a £500 cheque to a local horticultural charitable organisation (MeGA), money which will help them to carry out conservation works within Nottingham parks and green spaces for local residents

Lindum also made important contributions to the community through less traditional means, which had a significant, positive impact. During construction of the memorial, the local World Triathlon being held in Nottingham, was due to take place along the embankment where the memorial was located. However, recent flooding of the River Trent had caused serious issues that would have disrupted the event. The site team responded by quickly clearing the site so the community event could go ahead.

Social and local economic value added:	£157k		
Social and local economic value added:	47%		
Even on non-traditional construction projects, social value and community benefits can be delivered by working closely with local residents and organisations.			



Contractor:	Balfour Beatty	Sector:	Infrastructure

Project: Windle Island Junction, St Helens Contract value: £7m

A strategic infrastructure project to increase junction capacity on the A580, improve pedestrian safety, smooth traffic flow and provide better access in and out of St Helens. Balfour Beatty delivered the following social value initiatives:

- » Provided 13 weeks of work experience
- » Engaged 1,430 pupils from local schools and colleges, through site visits and talks on career opportunities in the construction industry
- » Provided employment for 11 local people on the project
- » Spent £2.5m with local businesses, helping keep project spend local and supporting regional economic growth

Environmental innovations

As part of this project, Balfour Beatty trialled new air source heat pumps in their site cabins. The pumps extract heat from the outside air in the same way that a fridge extracts heat from inside - technology which was previously not considered suitable for use on temporary sites.

They also used four mobile solar lighting tower units with powerful LED lights that charged during the day via solar panels, angled to capture the optimum amount of sunlight, which were then used to provide illumination of the junction at night. Without these panels, the units would have been powered by noisy diesel generators, emitting pollution and requiring regular refuelling.

In contrast, the solar powered lights have zero noise, emissions, fuel and maintenance requirements, and by using them, Balfour Beatty saved 15 tonnes of CO2e on the project – the equivalent of the emissions generated by a car travelling 33,766 miles or the energy usage for 1.6 homes for one year.

Social and local economic value added £:	£4.65m	
Social and local economic value added %:	66.4%	

Innovation can generate additional social and local economic value outcomes that can significantly improve a project's environmental impact.

Local value: methodological approach

This section discusses in more detail how we approached the local spend data and sets out key considerations and ideas for further analysis.

What is local economic value?

As discussed in <u>Key findings</u>, local economic value is a key driver for many procuring authorities. By local economic value, we mean value that is defined by where the expenditure takes place. In the TOMs framework, we use this term to describe value created that is local and purely "economic" in its nature. In other words, this "value" takes no account of the condition or circumstances of the people and communities who benefit from this spend. These elements in the TOMs are the categories of value where the description matches traditional standard economic impact measures – namely jobs and expenditure in the local supply chain.

How to account for the role of local economic value in social value analysis is a matter for debate. There is a methodological consideration and a "real world" consideration. The methodological consideration is that we need to ensure value is reported in a manner that is consistent with recognised econometric reporting standards.

The "real world" consideration is that we should be reporting what makes a positive difference to people and communities and using social value reporting as an agent of positive change.

In the "real world", local jobs and local supply chain spend are an essential part of delivering an effective social value strategy. In the methodology, "local" is not considered to be intrinsically valuable to society (only to the area affected) because expenditure in one location automatically means that this spend does not happen somewhere else. Therefore, we have to report "local" and "social" separately. This theoretical concept is known as "displacement".

It is important to note that displacement is a theoretical assumption that does not factor in the possibility that it might be intrinsically beneficial to the UK, for jobs and supply chain spend to be local rather than non-local (for environmental reasons, for instance). There would need to be more research to develop an evidence-led counter argument to the displacement assumption, which is something we are actively reviewing.

Why should we analyse local spend?

Analysing what proportion of a contract is spent locally and how it is spent is a clear indicator of additional value that can be created for local communities, for whom local economic activity is the bedrock on which social capital can be built.

We need to examine local spend in various ways:

- » By sector
- » Project type
- » Project size
- » And at different geographical levels, such as regional, local or sub-local.

We need to consider what the money is being spent on (e.g. is it funding highly skilled employment or the purchase of materials that are being shipped in from elsewhere?), as well as how this spend aligns with local need.

This report concentrates on the social value 'big picture' – looking at the aggregation of social value data across a UK-wide portfolio of projects, so the questions we are asking are fairly high level. This provides the context for a deeper dive into different issues and regions around the country. At a time when 'levelling up' is a key policy theme,² how much contract value is spent locally across the country is a key question. Our analysis suggests there might be quite a wide variance between regions.

In the nations of Northern Ireland, Wales and Scotland, we found the local spend ratio is considerably higher than the English regions, and a couple, unallocated and London, where it is somewhat lower. The others are broadly within the 15%-25% range.

There will be underlying determinants and limitations to the dataset (the sample size for Northern Ireland, for example, is relatively small), but one obvious question would be whether regions with relatively low ratios could aim for the mid-range where most regions are clustered, or whether there are structural obstacles (such as a less well-developed local supply chain) that need to be overcome. This should be seen as the start of a more detailed investigation.

Analysing local supply chain spend

A big challenge with standard econometric methods is that they risk reinforcing existing inequalities. If we rely solely, for instance, on regionalised job values and GVA figures as a guide to value, we might conclude that we should invest in regions where the economy is already strong – because when we apply the localised jobs and GVA multipliers, these regions give us the highest output values.

In fact, the opposite might be argued – that spend should be targeted at areas precisely because they have historically low multipliers.

What this report shows, is how significant local economic value is as part of the assessment.

Firstly, we need to collect more data on the composition of local supply chain spend on a project-by-project basis. Secondly, we need to

consider alternative ways of looking at local economic value.

It should be stressed that for this report we have taken supply chain spend reported as 'local' at face value and used the location of the project itself as the point of reference. In practice, definitions of local vary and the nature of the spend will have a major influence on the benefits generated for people and communities.

This work gives us the opportunity to consider additional and alternative approaches, and some of our initial thinking is included, to stimulate further discussion and debate. Developing a more detailed understanding of local economic value is an ongoing project for SVP.

Levelling up

As part of this work, we used local spend data to consider whether we can develop a different approach to valuing local spend that reflects investment need, rather than simply reinforcing existing disparities.

We have considered it initially at a regional level for this report, although in principle it could also be applied sub-regionally (at local authority, combined authority or city region level).

The key stages in our analysis were as follows:

» We looked first at the distribution of value across the UK in accordance with the standard localised GVA multiplier as used in the National TOMs.

The advantage of using a GVA multiplier in this TOMs measure is that it is compatible with standard socio-economic appraisal techniques such as the Treasury Green Book, but the downside is that it appears to favour areas which already have a higher *per capita* output and so arguably are less in need of the economic benefit.

² See, for instance: https://www.bbc.co.uk/news/uk-politics-54049920





Table 4: "inverse" GVA worked example

"Inverse GVA" worked example	
Contract value:	£10,000,000
Local Spend	£ 5,000,000
UK average construction multiplier	0.945
Berkshire multiplier	1.139
Blackpool multiplier	0.662
Difference from UK average: Berkshire	-0.194
Difference from UK average: Blackpool	0.283
Local economic value Berkshire (standard approach)	£ 5,695,000
Local economic value Blackpool (standard approach)	£ 3,311,596
Local economic value Berkshire (alternative approach)	£3,755,000
Local economic value Blackpool (alternative approach)	£6,138,404

Using a GVA multiplier means that a supplier, for instance, will record a higher GVA figure for £5m of local spend in Berkshire than for Blackpool. While this may be what the historical data tells us is likely to be the outcome on an input : output basis, it tells us nothing about the expected relative merits of spending in these areas in terms of the potential increase in prosperity and wellbeing of local communities.

» We then constructed an alternative multiplier, using the same basic GVA multiplier as a starting point, but as a relative measure, compared with the UK average. We then either added a discount or applied a premium, depending on whether the local multiplier is higher (= discount) or lower (= premium) than the national multiplier.

The argument for this is that a decision-maker looking to reduce inequality might wish to target areas with a lower per capita output, with a view to helping them to move closer to the national average. This is not to say that this should be applied as a universal policy, but it might be one criterion amongst a number for projects where there is a perceived need to maximise social benefits (for example, social infrastructure projects).



The "inverse GVA multiplier" is illustrated in Table 4.

In effect, we are now treating the multiplier as an investment criterion as opposed to a simple output.

» We also began to examine what relationships can be established between local supply chain spend and deprivation indices. This is the first step in a broader project to develop a deeper understanding of the relationships between economic expenditure and relative need. For this report, we looked for the local authorities in the deprivation rankings which were the 20% most deprived (= the first quintile) when the data from the measurement areas within those authorities is aggregated.³

³ All four countries of the United Kingdom have own slightly different ways of measuring deprivation. For instance, England measures deprivation in Lower-level Super Output Areas (LSOAs), while Scotland uses Datazones. There are also some differences in the data that feed into the different components of the indices, but for the purposes of this report, we have assumed that all the indices are broadly comparable.

Results

The charts below show how the distributions change, depending on the measure of value used:

Chart 1: Distribution of Local Spend

This shows how local spend is distributed across the UK in purely £ contract value terms. Perhaps not surprisingly, London, Scotland and the South East account for the largest share in England. Scotland looks high because of some relatively high contract values in this section of the portfolio.

Chart 2: Distribution by Gross Value Added

This shows how the spend distribution changes when GVA multipliers are applied. London is now significantly ahead of the other regions because of the relatively high GVA multipliers, which in turn are driven by historically much higher economic performance. It can also be seen that London is the only UK region where the multiplier effect is, on average, greater than 1.

Chart 3: Distribution by Inverse Gross Value Added

If we adjust the local GVA multiplier by its relationship with the UK average, as discussed above, not surprisingly, this completely changes the picture in terms of how "value" is distributed across the UK.

Chart 4: Distribution by areas of high deprivation

Lastly, if we count only the spend that has been directed to areas of high deprivation, this changes the picture yet again.

Further commentary on these charts is provided below.

» Chart 1 The sample has a particularly high proportion of local supply chain spend relative to population density in Scotland (18% versus 8%) expenditure. This is due to a number of relatively high value Scottish projects included in the sample. The spend in the North East is slightly higher than the population share for this region, while the value shares for London, the North West and South East are broadly proportionate, and the other regions are all underweight relative to their population shares.

- » <u>Chart 2</u> Based on a standard GVA multiplier approach, this chart shows that the value attributable to London is nearly a third of the total UK GVA for local supply chain spend (c.31%). This is due to the GVA multipliers applied to London expenditure, which in turn result from historically high levels of output in this region.
- » Chart 3 As explained above, the fundamental drawback in applying a GVA multiplier to local supply chain spend as a measure of value, is that it may not necessarily reflect investment need. In fact, the reverse might be true – the areas of the country with the lowest recorded GVA output are arguably most in need of the economic benefits generated by construction activity, while spending more money on construction in areas that already have a high per capita output might be creating negative effects by putting greater pressure on infrastructure, public services and the environment.

<u>Chart 3</u> shows what happens to the data when a form of inverse multiplier is applied – in other words, the GVA multiplier is adjusted by a discount or a premium according to whether the local multiplier is higher or lower than the UK average, on the grounds that a rational public investment approach would be to try to focus on below-average areas. Not surprisingly, the value in London goes significantly negative, while most other areas see a significant upward increase in their share of the total value created. If the policy objective is to 'level up', it would suggest that there should be a significant rebalancing of London spend to the benefit of other parts of the UK – in particular, to some of the English regions.

In practice, there are many other factors which will drive the location of local spend, and it should be recognised that the sample is skewed by the pre-existing distribution of projects in the sample. However, if nothing else, this analysis shows that if investment decisions rely on GVA results to

Chart 1: Distribution of Local Spend



Chart 2: Distribution by Gross Value Added



Chart 3: Distribution by Inverse Gross Value Added



Chart 4: Distribution by areas of high deprivation



determine regional allocations of resources, there is an embedded bias in favour of higher per capita output areas that needs to be taken into account.

<u>Chart 4</u> The final chart shows where local spend (as defined by the location of the project) is taking place in areas of higher deprivation. In summary, there are some areas where a reasonably high proportion of local spend appears to be directed towards areas of higher deprivation (notably the North West, West Midlands and Northern Ireland), while there are others where little or none of the local spend is directed towards areas of higher deprivation.

In some regions, such as the East of England, South West, the North East and South East, this is because there are no local authorities in the first quintile (despite there being areas of higher deprivation at the sub-local authority level), but there are other cases, such as London, where areas of higher deprivation have been identified but there is no spend in respect of these areas.

As a benchmarking tool, correlation with high areas of deprivation would need to be developed to provide data on smaller area sizes than the regions used for this report, which designates a NUTS 34 to avoid over-simplifying. However, even the level used here raises some interesting questions, both about how initial public sector investment decisions are made and then how they are implemented to maximise benefits to society.

Other than in limited circumstances, we do not believe that socio-economic data is currently being used to determine supply chain strategies. With the broader availability of data in a standardised format, this could be considered as an area for future development.

⁴ "Nomenclature des unités territoriales statistiques" is the EU designation for statistical areas. NUTS 3 areas have populations of between 150,000 and 800,000 people and often include more than one local authority (see <u>https://en.wikipedia.org/wiki/</u> Nomenclature_of_Territorial_Units_for_Statistics

Conclusions

Standardised social value measurement is still at a relatively early stage of development and there is plenty of work to do to increase the robustness of the analysis, not least because a large proportion of the projects did not have the TOMs embedded from the outset.

The analysis of the local authority data also shows that social value is still some way off being business as usual in public procurement, but the principles of social value are now widespread in the local authority sector; if not quite yet the norm, we appear to be at something of a tipping point and, on the current trajectory, social value in local authority procurement should soon become business as usual, although the spread is uneven across the sector.

It is clear that the construction sector can deliver significant amounts of local and social value, with a figure across the assessed portfolio of around 24% of contractual spend, although it should be noted that differing definitions of local mean that rigorous comparability is not possible and there is a risk of double counting in the aggregate figure.

While smaller construction projects are clearly capable of generating significant amounts of social and local economic value, the range of measures used in smaller projects should be examined in more detail. While encouraging smaller projects to make broader use of the TOMs is one strategy, there is probably also a need to filter out measures to create a more targeted set for smaller projects.

"Value" is at present seen predominantly in the local spend element, so increasing the proportion of purely social spend requires greater focus. While local economic value delivers the highest headline figures, **social value should be regarded as investment in a sustainable future for communities, from both a social and an environmental perspective.** The local spend figures themselves can provide very useful comparative insights and could potentially be repurposed as a comparative investment tool by adapting the traditional GVA multiplier. The GVA multiplier approach in isolation tends to reinforce pre-existing value presumptions about high performing areas in the UK (notably London and the South East).

At the same time, more work is needed on the correlation between contract expenditure and areas of significant investment need.

The overall conclusion from the analysis of the geographical distribution of local spend is that this is a rich area of research to give us more insight into economic inequalities and we need to re-examine the way we measure local economic value.

With this in mind, we think that further consideration should be given to:

- » Setting targets for the percentage of social value created, independently, and additionally to those measures focused on local spend
- » Encouraging the take-up of social value measures beyond those relating to jobs and skills
- » Looking at alternative and complementary ways of measuring local economic value
- » Seeking to build the evidence base for supply chain spend
- » Starting to correlate contract spend data with external geospatial datasets including, but not limited, to Indices of Multiple Deprivation.







general@scape.co.uk scape.co.uk